FSB Consultation-Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities

Response from Fidelity International

Fidelity International is a global asset and fund manager operating in twenty four different jurisdictions and managing assets of over $350bn. FIL has had a number of meetings and engagements with FSB/IOSCO personnel over recent months and has appreciated their time and interest. FIL has also worked closely with EFAMA (European Fund and Asset Management Association) and the Investment Association in the UK. We commend their excellent responses to the consultation thus we will make only a number of over-arching comments to add to their detailed responses.

1. It is worth re-emphasising that fund management through authorised and regulated funds covers less than half of global asset management. The FSB cannot fully carry out its remit without studying the non-fund asset management landscape. Indeed authorised funds tend to have precisely the rules and regulations which aid financial stability, non-fund players may not.
2. Where funds are involved they are not homogenous. There is a spectrum running from triple A money funds, where not only can the investor redeem at short notice but expects to get their money back intact, through to property funds with a highly illiquid underlying asset where a fully open-ended fund is clearly unsuitable. For the vast majority of authorised funds the investor is aware of the volatile nature of the underlying, ie they may not get their money back intact. Indeed this is one of the reasons why, in Europe generally, the penetration of funds is so low investors are very risk averse.
3. There is a sense in the consultation that the FSB sees relations between fund managers and owners as purely transactional. For most institutional clients this will not be so. Managers will have regular contact with clients, sometimes on a daily basis and large transactions are typically negotiated over periods of days, weeks, or even months.
4. Following from this too little emphasis is placed on the differing customer behaviours. So knowing your customer is a key part of the risk and liquidity management of a fund.
5. Although the main tenor of the paper and the concentration on activities is welcome there are still threads running through the paper that consist of unsubstantiated charges of behaviours which are thought could lead to financial instability. No evidence is presented to back these ideas and they detract from the intellectual rigour of the work.
6. Along with other commentators we doubt it is possible to come to a single measure of leverage. Moreover any measure is likely to relate to individual funds and it is unclear how that contributes to understanding of systemic risks. Most transactions between banks and managers will now be centrally cleared or collateralised. Also funds are now often managed against risk budgets, of which leverage is but one part. Clearly there are linkages between fund and asset management and banks, but from a systemic point of view that is better observed from bank balance sheets.

7. Similarly, if guidance is given on stress testing it is important it is in the form of principles not detailed rules. The later could, indeed, lead to a form of unwelcome herding and could not reflect the many different strategies that funds employ.
8. On bond liquidity, we do not believe the evidence adduced is accurate. What it fails to pick up is the deals we are not able to do because of the state of liquidity in the market. The rules in MiFID2 will, of course, worsen this.
9. We agree with some of the comments on disclosure. It may be that the ability of managers to use remedies such as swing pricing, in specie redemption etc. should be flagged better to investors. The secret will be to do that whilst also making it clear that the likelihood of these tools being used is low.

If you have questions about any of these remarks FIL will be pleased to engage further with this work.

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